



Presentation to NERSA

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Kruger Lowveld Chamber of Business and Tourism NPC

Who is KLCBT?

- We represent approximately 1000 business members consisting of Micro-, Small-, Medium- and Large enterprises in all industries and almost half are tourism related.
- We are the official voice of business and tourism in Ehlanzeni district

About our region

- Mbombela City's population grows with 2,3% per annum while the national economic growth is virtually stagnant
- Already 1/3 of the population is classified as poor and surrounding areas like Nkomazi and Bushbuckridge which rely on Mbombela's infrastructure and economy, have a poverty rate of 50%.
- This trend will only see more devastating statistics in future years and for that reason we need to protect the survival of each and every business
- For this reason we also need to make the cost of living as low as possible for poor people to survive and not be tempted to turn to a live of crime, which includes theft of electricity

Objection to an increase as a result of MYPD4

We will be presenting 6 reasons why we oppose any further tariff increase:

1. The true purpose of RCA and the MYPD Methodology
2. Eskom as a For Profit company
3. Effects of corruption & mismanagement
4. Government intervention is required
5. Contradiction with Eskom's core strategies
6. The effect

1. The True Purpose of RCA and the MYPD Methodology

The basis of submission as per the MYPD Methodology refers to certain points (among others) which needs to be revisited:

- Allowing the pass-through of PRUDENTLY incurred primary energy costs...
- Allowing for PRUDENTLY incurred under-expenditure on CONTROLLABLE operating costs... Not over-expenditure...
- The RCA method was developed to protect the consumer and refund them when Eskom has overcharged them, not the other way around

2. Eskom as a For Profit Company

Like most of us here and the ones I am representing, Eskom is a For-Profit Company. This comes with certain responsibilities under the companies act, which applies to all of us.

- None of us can go back after 2 years and tell our clients “oops, I have under-charged you, please refund me”! This is just unimaginable!
- If a company wants to remain a going concern the owner has to provide capital to carry on (in this case – government), alternatively such company must liquidate or go under business rescue (this is not an option as most debts are based abroad). Thus capitalize or sell!
- Get a grip on your outstanding debts. Cut your losses and get payments in. The situation has worsened because municipalities cannot settle old balances.
- Our companies cannot get refunds from our clients because Eskom wants a refund from us...
- This behavior is that of a non-profit company like the SPCA who has to go begging because they received more animals to care for, than anticipated...

3. Effects of Corruption & Mismanagement

We commend your progress in cleaning house and we are encouraged by the signs of obvious management improvements.

BUT we cannot condone any increase over and above PRUDENT controllable operating costs increases.

We understand that reasonable capital costs should be subsidized by tariffs, nothing new. Depreciation should be part of operating costs. However the lack of prudence and money squandered instead of paying off loans, are sins from the past should not be subsidized by tariffs. The “owner” is responsible to fund their own mistakes. This is government.

On the ground we still notice extortion of suppliers by Eskom staff and goods and services are being procured at inflated prices.

4. Government intervention is required

- Eskom is a critical service provider to all businesses
- If we wish to restore investor confidence and business confidence in South Africa, Eskom should operate efficiently without fear of being shut down
- If SAA could receive a rescue package (which is certainly not as critical to the economy) so can Eskom

We feel that government, as the owner of the company, should rescue Eskom in order to make payments of these loans without increasing of rates to cash strapped consumers and businesses. Unfortunately that comes out of our taxes too...

5. Contradiction with Eskom's core strategies

It is one of Eskom's core strategies (per recent financial statements) to:

“ensure reliable electricity supply...supported moderate electricity price increases through cost efficiencies across the business.”

- Eskom could over a number of years not ensure reliable electricity supply which lead to serious economic factors
- An increase over and above the allowable increase, is not modest by anybody's definition
- An attempt at cost efficient management has only seen an improvement very recently, but has a very long way to go

6. The Effect – already visible in Eskom's sales

- To businesses:
 - Sharp increase in unemployment and business closures
- To Eskom:
 - YOU will lose clients and revenue as businesses close down
 - More people will not pay their bills, directly and to municipalities
 - Clients will convert to alternative energy and you will lose them forever
 - You will make yourself redundant by high cost and unreliable service delivery
- To South Africa:
 - Sharp increase in unemployment rate
 - Sharp increase in business closures
 - Shrinking tax base
 - Less exports as SA companies lose global competitiveness
 - Protests without end!
 - SA will look like a real third world country where government can willy-nilly increase any prices to fund their extravagance...

Our recommendation...

- We accept that costs have gone up to a reasonable degree, but we cannot see any reason why the rate should be put up by more than the allowed increase for 2020.
- We insist on government intervention to rescue Eskom from the sins of the past.
- We expect Eskom to show by reputation that they are able to manage the entity with prudence, before they turn to the consumers again, with more promises of things to be better in future.
- Cut your losses on outstanding municipal debts so you can move forward with prudent debt control
- Cut your losses with power stations that cannot produce profit – stop the outflow of money just because we are in it for so long.
- Make the tough decisions and cut your staff compliment by half or cut your salaries by half – this is what business has to do to cope with the effects of Eskom's unreliability and price hikes. It is Eskom's turn.

In conclusion...

77 Businesses in our membership base (maybe a whole lot more) are actively changing systems to go off the grid completely and many others will partially go off the grid to become less dependent on Eskom.

1 Large business indicated closure in 2020 due to unmanageable electricity costs (600+ employees)

More than 60 businesses have closed down in our area since loadshedding began again at the end of last year.

Our staff earns less than 30% of the salary packages Eskom's staff earn and there were no hope of any bonuses for many years. Why must we pay to keep your staff in luxury and reward corruption and non-performance?

We can only increase rates above growth rate if Eskom enables the economy attract investment and expansion, by meeting and exceeding their mandates of reliability and affordability.

Sorry Eskom, we cannot bail you out this time around, we honestly wish we could...

THANK YOU!

